

# CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION INVESTMENT COMMITTEE

### MINUTES OF MEETING OPEN SESSION

August 18, 2008

The Investment Committee met on Monday, August 18, 2008 in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Auditorium, Sacramento, California.

The meeting was called to order at approximately 9:45 a.m. and the following members were present:

George Diehr, Chair
Priya Mathur, Vice Chair
John Chiang
Rob Feckner
David Gilb, represented by Greg Beatty
Henry Jones
Bill Lockyer, represented by Steve Coony
Louis F. Moret
Tony Oliveira
Anne Sheehan
Kurato Shimada
Charles Valdes

Terry McGuire represented John Chiang

Investment Committee members excused: Marjorie Berte

#### AGENDA ITEM 2 – APPROVAL OF JUNE 2008 MEETING MINUTES

On **MOTION** by Mr. Feckner, **SECONDED** and **CARRIED** that the June 16, 2008 Open Session minutes be approved as presented.

Mr. Shimada abstained.

#### AGENDA ITEM 3 - POLICY SUBCOMMITTEE REPORT

Mr. Jones, Policy Subcommittee Chair, presented the June 16, 2008 Subcommittee Meeting Summary.

The Subcommittee deliberated upon the following matters:

- Adoption of the Supplemental Income Plans (SIP) CalPERS Risk-Based and Target Retirement Date Funds Policy
- Adoption of the Infrastructure Component of the Inflation-Linked Asset Class Policy, with revisions based on direction provided by the Subcommittee
- Revision of the Global Principles of Accountable Corporate Governance
- Revision of the revised Equity Real Estate Policy

Given the significance of the two new policies, staff made the following presentations:

#### SIP CalPERS Risk-Based and Target Retirement Date Funds Policy

Geraldine Jimenez, SIP Division Chief, and Rick Roth, Senior Portfolio Manager, presented the item. The creation of custom CalPERS Asset Allocation Funds for the SIP Program was approved by the Investment Committee in February 2008. Staff selected Callan Associates from the General Pension Consultant Spring-fed Pool to assist with the development of these funds. In addition, the Actuarial Office contributed staff and expertise on CalPERS member demographic data. The proposed policy was developed for this new program.

Eileen Kwei and Jason Ellement, Callan Associates, were available to respond to questions from the Committee.

#### Infrastructure Component of the Inflation-Linked Asset Class Policy

Farouki Majeed, Senior Investment Officer, reviewed the development of the Infrastructure Component from adoption of the asset allocation in December 2007 to present, including two readings before the Policy Subcommittee and engagement in a process to obtain and review input from interested parties, including labor representatives, industry representatives, and others. The proposed policy provides staff the flexibility to implement the program, maintain CalPERS objectives and goals, and provide protections for the interest of public sector employees.

Staff highlighted additional policy revisions proposed subsequent to the Policy Subcommittee second reading.

The following consultants were available for comment:

- Michael Schlachter, Wilshire Associates
- Allan Emkin and Judy Chambers, Pension Consulting Alliance
- Ethan Lipsig, with Paul Hastings, Janofsky & Walker LLP (by phone)

The following public comments were received:

- Michael Bolden, AFSCME, expressed concern regarding the leverage levels
- Rachel Harold, CERES, commended the inclusion of environmental risks and sustainable practices

On **MOTION** by the Subcommittee that the Investment Committee approve:

- a. Adoption of the Supplemental Income Plans (SIP) CalPERS Risk-Based and Target Retirement Date Funds Policy
- b. Revision of the Global Principles of Accountable Corporate Governance
- c. Revision of the revised Equity Real Estate Policy
- d. Adoption of the Infrastructure Component of the Inflation-Linked Asset Class Policy, with revisions based on direction provided by the Subcommittee, and as amended.

The next Policy Subcommittee meeting will be held immediately following the Investment Committee meeting.

#### AGENDA ITEM 4a - TOTAL FUND, Risk Management Reporting

Farouki Majeed, Senior Investment Officer, and Rick Roth, Senior Portfolio Manager, presented the item. Michael Schlachter, Wilshire Associates, was available to respond to questions from the Committee.

The investment policy for the Asset Allocation Strategy, approved in May 2008, requires that the asset allocation and the CalPERS total fund be managed within target forecast annual tracking error limits, and that staff report monthly to the Committee. Staff presented the CalPERS Forecast Total Risk and the CalPERS Total Fund Tracking Error Reports for the period ending June 30, 2008, and provided an overview of the Risk Measurement System (RMS) and methodologies used to prepare the reports. Future reports will be provided as part of the monthly Chief Investment Officer's Report and updates will be included along with the quarterly Asset Allocation reports to the Committee.

### AGENDA ITEM 4b – TOTAL FUND, Enhanced Equity Portfolio – Internally Managed

Eric Baggesen, Senior Investment Officer-Global Equity, and Curtis Ishii, Senior Investment Officer-Global Fixed Income, presented the item. Andrew Junkin, Wilshire Associates, was available to respond to questions from the Committee.

Because of conditions in the market caused by the "subprime crisis," staff believes there is an opportunity to earn a return on high quality fixed income assets in excess of LIBOR. Staff proposed a portfolio be established to take advantage of this opportunity through a joint effort between Global Equity and Fixed Income. Staff outlined the design, benefits and risks of the portfolio.

An action item will be scheduled for a future Committee meeting.

# AGENDA ITEM 4c – TOTAL FUND, Implementation of Sudan and Iran Divestment Legislation

Anne Stausboll, Interim Chief Investment Officer, reviewed the provisions of the Sudan Divestment Act and the California Public Divest from Iran Act, and informed the Committee of the status of the implementation of both Acts as they relate to the holdings of CalPERS. As required by law, staff will prepare reports to the Legislature for the Committee's approval in December 2008.

Peter Mixon, General Counsel, responded to questions from the Committee regarding reimbursement of costs for legislatively mandated programs.

### AGENDA ITEM 5a – REAL ESTATE, Investment and Diversification in Emerging Market Real Estate

Ted Eliopoulos, Senior Investment Officer; Bob Eberhardt, Portfolio Manager; and Jane Delfendahl, Portfolio Manager, presented the item.

The 2007 Real Estate Strategic Plan recommended increasing the real estate allocation to international markets, with emphasis on increasing emerging market exposure in real estate long-term strategies.

Nori Gerardo Lietz, PCA – Real Estate Advisors, and Allan Emkin, Pension Consulting Alliance, provided an in-depth background on international markets.

The International Equity Real Estate Policy will be revised to include this strategy. The proposed revised policy will be presented at the August Policy Subcommittee meeting.

# AGENDA ITEM 6a – ALTERNATIVE INVESTMENT MANAGEMENT (AIM) PROGRAM, AIM Allocation

Leon Shahinian, Senior Investment Officer-AIM, and Farouki Majeed, Senior Investment Officer-Asset Allocation, presented the item.

Staff provided an update on the AIM allocation, which is currently 10.5%, and described the effect market conditions have had and may have on the allocation. Later this year, staff will provide an annual review of CaIPERS' strategic asset allocation and ranges and make recommendations.

### AGENDA ITEM 7a – INFLATION-LINKED ASSET CLASS (ILAC), Implementation Update

Farouki Majeed, Senior Investment Officer, reported on implementation of the ILAC, including the commodities, inflation-linked bonds, infrastructure, and forestland components. An update was provided for each component in the areas of investment policies, staffing, delegations, incentive plan, and investment implementation.

Staff is exploring the possibility of investing in agricultural land to enlarge and diversify the assets within ILAC. Staff will recommend the transfer of the existing agricultural land assets and the related policy from Real Estate to ILAC at a future meeting.

Staff will continue to provide monthly ILAC implementation updates.

### AGENDA ITEM 8a – GLOBAL FIXED INCOME, Member Home Loan Program Update

Curtis Ishii, Senior Investment Officer, Arnie Phillips, Senior Portfolio Manager, and Dan Kiefer, Portfolio Manager, presented the item.

Per the Committee's April 2008 request, staff reported regarding consideration of the prospect and potential ramifications of increasing the percentage members can borrow under the Secured Personal Loan Program from 5% to 10%.

The meeting recessed from 12:00 to 12:50 p.m.

# AGENDA ITEMS 8b and 8c – GLOBAL FIXED INCOME, Consultant Review of Internal Fixed Income Program and Securities Lending Collateral Pool Program

Andrew Junkin and Tom Toth, Wilshire Associates, presented the item. It is part of Wilshire's contractual requirement to periodically review CalPERS' internal asset management functions. Wilshire conducted an on-site review of the Global Fixed Income internal fixed income program and the securities lending collateral pool program, including a review of the teams' personnel, investment processes, and resources. The findings of the reports were presented.

The Committee accepted the annual information reports.

# AGENDA ITEM 8d – GLOBAL FIXED INCOME, Securities Lending and Proxy Voting

Eric Baggesen, Senior Investment Officer-Global Equity; Curtis Ishii, Senior Investment Officer-Global Fixed Income; Arnie Phillips, Senior Portfolio Manager; and Dan Kiefer, Portfolio Manager, presented the item.

As follow up to questions that arose at the June 2008 Committee meeting, staff provided a presentation regarding proxy voting as it relates to CalPERS securities lending program.

#### AGENDA ITEM 9a - GLOBAL EQUITY, Environmental Manager Annual Review

Eric Baggesen, Senior Investment Officer, and Mary Cottrill, Senior Portfolio Manager, presented the item. Michael Schlachter, Wilshire Associates, was available to respond to questions from the Committee.

In April 2004, the Investment Committee approved an environmental investing program and, in November 2005, approved the selection of firms and products for the program. Staff reviewed the performance of the external environmental managers.

On **MOTION** by Mr. Coony, **SECONDED** and **CARRIED** to renew contracts for CalPERS' five Environmental External Equity Managers for a period of one year. The managers are:

#### <u>Domestic Environmental External Equity Managers</u>

AXA Rosenberg Investment Management New Amsterdam Partners State Street Global Advisors

#### International Developed Markets Environmental External Equity Managers

Brandywine Global Investment Management State Street Global Advisors

Over the coming fiscal year, staff plan to review Global Equity environmental program strategies for both external managers and internal programs and report back to the Committee.

# AGENDA ITEM 10a – GLOBAL EQUITY – CORPORATE GOVERNANCE, Investment Program Performance Review

Eric Baggesen, Senior Investment Officer, and Mike Riffle, Portfolio Manager, presented the item. Andrew Junkin, Wilshire Associates, was available to respond to questions from the Committee.

Staff provided an update of CalPERS' current \$5.1 billion globally diversified Corporate Governance Investment Program. The program objectives are to produce a positive alpha, increase capital commitments to superior performing partners, and identify new external partners and co-investment opportunities to take advantage of innovative and sustainable investment strategies.

### AGENDA ITEM 10b – GLOBAL EQUITY – CORPORATE GOVERNANCE, Wilshire Study on CalPERS Corporate Governance Program

Tom Toth and Andrew Junkin, Wilshire Associates, presented the report and responded to questions from the Committee.

This is the fifth Wilshire report on the economic value of CalPERS' corporate governance activities. This analysis evaluates CalPERS' corporate governance effectiveness by measuring the performance of the stocks of the 134 companies targeted by CalPERS from the program's beginning in 1987 through the fall of 2006. For the first five years after the "initiative date," the average targeted company produced excess returns of 15.7% above their respective benchmark return on a cumulative basis, or about 3% per year on an annualized basis. This is impressive and represents an increase in results from the prior year.

The Committee accepted the annual informational report.

# AGENDA ITEM 10c – GLOBAL EQUITY – CORPORATE GOVERNANCE, Corporate Governance Update

Eric Baggesen, Senior Investment Officer, reported:

- Securities Exchange Commission (SEC) Eric Baggesen and Ken Marzion, Interim
  Chief Executive Officer, have scheduled meetings with some Commissioners next
  week, including three newly confirmed, to reconfirm CalPERS' corporate governance
  message.
- Tokyo Stock Exchange staff completed a questionnaire from the exchange regarding investors' attitudes relative to corporate governance issues on companies that list on the Tokyo Stock Exchange.

# AGENDA ITEM 11a – SUPPLEMENTAL INCOME PLANS (SIP), Peace Officer Fire Fighter (POFF) Supplemental Plan Update

Geraldine Jimenez, SIP Division Chief, presented the item. Andrew Junkin, Wilshire Associates, was available to respond to questions from the Committee.

Staff provided an update on the changes that will be made to the POFF as part of the SIP enhancements, including adoption of the CalPERS Moderate Allocation fund to replace the State Street Global Advisor fund. Staff explained that they had met with the California Correctional Peace Officers Association and the Department of Personnel Administration regarding the changes.

### AGENDA ITEM 11b – SUPPLEMENTAL INCOME PLANS (SIP), Third Party Administrator Contract Amendment

Geraldine Jimenez, SIP Division Chief, presented the item. Andrew Junkin, Wilshire Associates, was available to respond to questions from the Committee.

The third-party administrator (TPA) for the CalPERS Supplemental Income Plans, CitiStreet, has been purchased by the ING Group. Under the terms of CalPERS' contract with CitiStreet, assignment of the TPA contract to ING must be approved by the Board. Staff's recommendation to approve the assignment is based on meetings with CitiStreet and ING management, and in consultation with the CalPERS Legal Office.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve the assignment of the CitiStreet contract to ING for SIP Third Party Administrative Services.

# AGENDA ITEM 12a – CHIEF INVESTMENT OFFICER'S / CHIEF OPERATING INVESTMENT OFFICER'S REPORT, Consolidated Investment Activity Report

Anne Stausboll, Interim Chief Investment Officer, presented the item and highlighted AIM and RMARS items completed under delegated authority.

Peter Mixon, General Counsel, will look into whether statute will allow the Supplemental Reporting Document to be provided in soft copy only to the Committee.

The Committee accepted the Consolidated Investment Activity Report. The total market value of the fund as of June 30, 2008, was approximately \$239.2 billion and the total book value was approximately \$205.5 billion.

# AGENDA ITEM 12b – CHIEF INVESTMENT OFFICER'S / CHIEF OPERATING INVESTMENT OFFICER'S REPORT, Chief Operating Investment Officer's Status Report

The Committee accepted the Chief Operating Investment Officer's Status Report.

### AGENDA ITEM 13 – PROPOSED 2009 INVESTMENT COMMITTEE MEETING DATES

On **MOTION** by Mr. Shimada, **SECONDED** and **CARRIED** to approve the proposed 2009 meeting dates.

#### AGENDA ITEM 14 - DRAFT SEPTEMBER 2008 AGENDA

The Committee accepted the proposed September 15, 2008 agenda.

#### AGENDA ITEM 15 – PUBLIC COMMENT

There were no additional comments from the public.

The meeting was adjourned at 2:05 p.m.

The next Investment Committee meeting is scheduled for September 15, 2008 in Sacramento, California.

Kenneth W. Marzion
Interim Chief Executive Officer